EU Banking Crisis: Towards the "Leveraged Breakup" of Euroland?

By Bob Chapman
Global Research, December 17, 2011
International Forecaster 17 December 2011

Region: Europe, USA
Theme: Global Economy

The Fed's third quarter audit data shows a total system debt of 355% and of GDP, in spite of so-called de-leveraging. It is down from the second quarter's 375% of GDP, but up from 264% a dozen years ago. Financial sector borrowing fell almost 50% in the quarter but non-financial debt increased while financial debt fell – a push so to speak. Unfortunately most of the debt growth emanated from Washington. That growth was $557 billion, of at a 14.1% annualized rate. Of course, what the federal government is doing is the antithesis of what they should be doing. Will these borrowings and debt continue, of course they will.

In 13 quarters Treasury debt is up $100 trillion an increase of almost $4.9 trillion, or by 92%. In three years Treasury debt rose from 16.2% of non-financial debt to 26.7% and total federal debt has increased from 46% of GDP to 78% of GDP. In 2007 federal non-financial debt grew from 3.3%. In 2010 it was 113%. Year-on-year total compensation rose only 2.8% as real inflation grew 11.6%. During that period corporate earnings set records. For the most part those earnings were achieved via layoffs. From the second thru the third quarters household debt fell 1.2% from a minus 0.6% and mortgage debt fell 1.8%, as consumer credit rose 1.2%.

Funding especially foreign funds of US bank branches has been wild and the Fed has done its best to obscure what they are up too. It looks like these foreign bank balances grew about $2.6 trillion.

The result is that pressure was relieved in Europe and the US went sideways in spite of massive increases in money and credit. Fed issuance is in a bubble and it is only a question of when it pops. It is not surprising that the American public believes we are headed in the wrong direction, some 70%. Only 39% approve of the administration's financial policies. The GOP frontrunner Gingrich, if he ran against Obama today would lose 50% to 41%. It shows you how dumb Republicans are. Nominating a crook who is a guaranteed loser.

As we pointed out earnings were the highest in four years. Layoffs were part of that, plus a lowering of loan reserves, bank lending and possible losses were virtually unchanged and the to-big-to-fail banks were able to borrow money at no cost, while the public pays up to 35% for funds.

European banks are struggling to raise capital under BIS dictates. In that process they are selling off their best assets. Normally they would sell the worst assets, but presently losses would worsen their balance sheets, so they are forced to sell best assets to bolster the balance sheet to meet the reserve figures demanded by the Bank for International Settlements the banker's bank. These sales tend to negatively affect markets. The higher the leverage, the worse the effect.

Via the Patriot Act the US government has declared war on Iran by invoking sanctions. This is under the guise of Iran supposedly having nuclear weapons, which is a figment of colonial Washington's imagination. The elitists in Washington want to isolate the Iranian banking system and as a result Iran is preparing to shut off 40% of the world's oil by shutting the Straits of Hormuz. The reason added to these actions by Treasury Secretary Geithner is that Iran is a primary money launderer. We see Iran's being cut off from western banking providential, considering the state of western banking today. The Fed and the IMF are again scurrying around trying to save Europe from itself, a place where few are capable of making decisions. We call that contagion and Iran could be spared that. The drones are being shot down over Iran and the US keeps sending them. Next it will be air combat where the loss of life and equipment will be high.

In Europe the past few weeks have been disastrous. Confidence continues to erode as the plunge protection team holds up markets and attacks gold and silver. Greece continues in a standoff until there are February elections. If there are no elections nothing will ensue in a big way. Greece refuses to reduce sovereign debt and take any more austerity cuts. What all these masters of the universe don't understand, or want to understand, is that Greek debt, in fact almost all debt, is unrepayable. What all governments have done by raising massive amounts of debt has frozen the productive private sector out of the market. The exceptions are AAA rated companies, almost of which just happen to be Illuminist run. Government spending is generally non-productive.

As we have seen recently even the elitists Super Congress Enabling Committee could not come to a conclusion on cutting US government debt. It shows you even under controlled circumstances that the kept Congress will not at all commit themselves to any kind of austerity.

Europe is about austerity and debt. The big question is will the Bundesbank take the easy way out? Will they print their way out now that selling bonds is difficult? Of course either printing or bonds or money is an answer or solution to the problem. Worse yet every currency is fiat and loaded by nothing and they are all unconnected. They call that spreading the misery. Growth is falling into the minus category, as Germany shows a third month of falling manufacturing orders.

In response to the economic situation, the European Commissioner for internal markets says, it will crackdown on credit agencies. These agencies are now finally doing their jobs and the commission wants to shoot the messenger. All they want is for the raters to create greater transparency and to explain their ratings. They went so far as to propose that raters be liable for financially punitive action when mistakes occur. What the commission wants is no ratings at all, so that they can operate in darkness. It complains about an S&P monopoly and that European downgrades should stop. These demands reflect the socialist-one-world attitude. If we can't have things our way they should not exist at all. We know the attitude and culture; we lived there.

The OECD says recession is upon you Europe and UK and you had best quickly expend money and credit, always the Keynesian answer. In France and Germany and the UK it will become more obvious in the spring as French presidential elects occur. They are all finding out that austerity caused recession. The next step by these control planners will be spending on infrastructure to try to ease the falling economy. Early next year all caution will be thrown to the four winds, spending will go rampart again. What they are doing does not work, they know, but they have no better answer because there is none. In England pension funds are being asked to invest in these projects. If they do not comply we see mandatory edicts to “invest” as the Fed did a few years ago in the US. The Treasury is contemplating forcing banks to take money and credit just created by the Bank of England and to lend it to small and medium sized businesses, which is where 70% of new jobs are created.

Euroland is facing a possible breakup and if Marine Le Pen wins the presidency in France that is sure to happen. Even if she loses the futility of the unnatural euro will be pointed out with great transparency, moving the euro zone toward extinction. There are many parts to this mosaic and they all have to be put together. You have to understand each and every culture and their history or you cannot predict what each group will do. In order to prevent gradual euro destruction they euro zone members should disband the currency as soon as Greece defaults, but they won’t do that. They will allow financial carnage.

Germany and the ECB are still refusing to emulate the Fed and the Bank of England in creating money and credit and tending to loan to the unsound six countries. This is driving interest rates higher and is putting major pressure on the euro. That is because German citizens demand the loans stop and that they recognize that recession is already underway.

The contagion of higher rates is spreading across the world financial spectrum.

Thus, the big question is, will Germany and the ECB go to quantitative easing to extend the life of the euro, euro zone and its six broke participants? At the moment we have to say no, and if we are correct the euro will break up. We can assure you that Bundstag and Bundesrat members are being overwhelmed by constituents who want to cut off funds to the 6 and leave the euro, during the Christmas break.

If the call of the German people is heeded Germany won’t try to print their way out of the problem and the edifice will collapse. This difficult problem has been heaped upon the shoulders of Germany and few other countries are willing to help. France financially cannot get out of its own way. Everywhere all we see is failure and as we have contended for years, that is all that could be expected. The Illuminist bankers have painted themselves into a corner and there is no way out. These problems should have been addressed years ago, but the one-worlders wanted to use the EU as a basis for world government and the euro as the new world currency. Very simply it did not work. Thus, there are no contingency plans and all that can be anticipated is a euro at $1.18 or perhaps an even one-to-one. This failure will be the catalyst for world financial contagion. That is why you do not want to be in any currency, only in gold and silver shares, coins and bullion.

Not much will be coming out of Europe until the third week in January. The region is beset by a regional crisis, such as that we have seen last summer, and Europe is on vacation for another month. These pauses reflect the style of socialist living. We were supposed to see a new mechanism to control recalcitrant countries and all we have seen, what is already in the Maastricht and Lisbon Treaties, no public debt to exceed 3% of GDP. Last time around, the Germans were the first to breach this rule and the other members followed. They were supposed to be fined 0.5% of the over debt. No one was fined and the Commission wants to drop the fine to 0.2%. The overall country debt would be set at 60% of GDP. The nations now vary from 70% to 153%. All we see is smoke and mirrors to buy time. The abuse is never going to go away and everyone knows it. The euro and the EU, as a result, is ultimately doomed. Debt piled upon debt solves nothing and further loans to unsound countries would only worsen the situation. Thus, we see this being abandoned as an option and that managed selective default is the answer. That means other sovereigns and regional banks will have to take a major financial hit, and be funded by these governments, which will supply the money and credit out of thin air. The only rational response is to allow the banks to go under and purge the system. The elitists won't do that because the nexus of their power will be destroyed. This is a long-term solution, but the elitists are not interested on long-term solutions. Managed default will probably be the path taken. In this toxic cocktail we also have major banks writing derivatives and shorting all the way, which is the antithesis of what is trying to be accomplished. All major US, UK and European banks are broke and they are staying alive by using inside information, which puts them on the right side of every trade. No one trusts anyone anymore, and the bankers can no longer control their own system. The systemic debt has undermined the entire structure.

Taking the equation one step further is the fact that most of the 17 nations cannot even come up with the revenue to service debt when under an austerity program. We are not just talking about Greece. It's the entire euro zone. Furthermore, all the funds spent on servicing debt, no matter what the source, is unproductive and it takes capital out of the hands of the real economy by freezing that productive loan flow. We are currently in the process of bringing sovereign debt into disrepute. That means there are no safe havens left except gold and silver investments.

Politicians realize this and that is why you have seen smoke and mirrors in Europe since early this year. The viable solutions are not there. In the US, look at the failure of the Super-Congress Enabling Committee. It was a total failure because in spite of the payoffs, no one was willing to commit to solving a small budget cut problem. Mind you, they couldn't even commit to paltry cuts of $120 billion annually. It is obvious no politicians want to cut anything. These were cuts in proposed increases in spending, not scheduled spending. As an example, military spending will rise 16% to 23% depending on how it is handled.

None of the nations and banks can repay their debt and if you hold any of it get rid of it. It eventually will end in failure or be inflated away. In Europe there can be no escape, because every nation and bank is tied to the ECB. The question in Europe is will the solvent bail out the insolvents, or will there be managed default and failure? No matter which route is taken get out of euros and into gold and silver related assets. It is only a question of when the euro will be history.

The original source of this article is International Forecaster

---

Articles by: Bob Chapman